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BUSH ACCUSED OF FAVORING CHINESE OVER U.S. INTERESTS

U.S. Manufacturers Charge Federal Government With Malfeasance In Upholding Trade Laws With China

In the growing number of trade disputes over cheap imports from China, the U.S. government is favoring Chinese exporters and their agents over American companies, more than a dozen executives from a diverse group of industries charged at a recent congressional hearing. Trade enforcement agencies at the Department of Commerce and the United States Trade Representative were accused of malfeasance in the way they are dealing with claims of dumping and unfair trade filings from U.S. companies and industries disputing the legality of a growing flood of Chinese imports.

The problem is worse than reported, according to the executives, and Chinese influence and distortion are leading to the destruction of entire U.S. industries, ranging from mold and die building, capital equipment, chemicals, electrical components, pharmaceuticals, textiles, furniture and agricultural products such as garlic and apples.

Executives from each of these industries told the House Appropriations subcommittee on Commerce, Justice and State that the Commerce and Justice Departments, the Customs Service and the United State Trade Representative have been negligent in their approach to the problem. The U.S. government's trade

agencies need to immediately change the way they deal with Chinese import complaints, lest the U.S. be even more overwhelmed by products being illegally dumped into the U.S. market, they said. Most of

the industries have already been materially injured and are struggling for their survival, said every one of the business executives invited to the subcommittee by the republican majority.

Rep. Frank Wolf (R-Va.), chairman of the subcommittee, implored the Bush administration to listen to U.S. industry and called for investigations by the Federal Bureau of Investigation, the Congressional Research Service and General Accounting Office. He wants to find out which law firms and lobbying groups are representing Chinese

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Wolf: U.S. Companies Must Be Proactive In Promoting Change In Trade Enforcement

"I think the Commerce Department was a little stunned" by the testimony presented by the 13 company executives before the House Appropriations subcommittee on Commerce, Justice and State, says subcommittee chairman Frank Wolf (R-Va.). Every one of the industry executives presenting before the committee "did not feel they were treated well by their own government, which is a major issue."

Wolf recommends that industries and companies under severe economic stress from Chinese imports begin contacting their elected

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House Appropriators Look At China Trade....(From page one)

interests and he plans on approaching the American Bar Association to determine if the "canon of ethics that we teach at law school" are being violated, he said.

During the three-hour hearing, the multitude of executives described in detail their experiences with trade cases before the USTR and the Commerce Department involving Chinese companies and the perniciousness of Chinese imports. They provided charts and graphs portraying the rapid escalation of Chinese products entering the country, many of which already have steep tariffs placed upon them. They also noted that the trade agencies of the federal government are understaffed and unable to respond to a rapidly increasing workload.

In cases involving the so-called Section 421 provision dealing specifically with Chinese imports, the U.S. government was accused of meeting with Chinese officials, favoring false and misleading data provided by Chinese importers over the U.S. petitioners and treating the U.S. companies with disdain. To the chagrin of the U.S. executives, all the cases were ruled in favor of the Chinese. There were not many kind words said about the Bush administration's economic policies.

National Association of Manufacturers vice president Frank Vargo said trade with China is approaching crisis proportions. "If we leave things the way they are, we'll have a massive problem," he said. "It's something we cannot ignore." If there continues to be a 20 percent increase per year in imports from China and a 12 percent growth rate for exports from the U.S. to China, the trade gap will grow from more than \$100 billion in 2002 to \$330 billion by 2008. "We have to do something about it not two years from now, but now," Vargo said, stressing the need for a "positive" approach to the issue. Chinese exports during the first quarter of 2003 are already up 35 percent over the same quarter last year.

The business leaders testifying were stridently agitated over the current state of affairs and many were scornfully truculent in their presentations.

"An intense lobbying campaign was launched by the Chinese to thwart relief to my industry," said William Wolf, president of **Motion Systems Corp.** of Eatontown, N.J., a maker of actuators. Even though the International Trade Commission agreed with the company that its Chinese competitors were unfairly selling actuators at one-quarter the price offered by

Motion Systems, President Bush at the behest of the U.S. Trade Representative overruled the ITC decision, based upon contacts made by the Chinese government, Wolf charged. "To say that I'm dumfounded by the administration giving credence to the viewpoints of the Chinese government over the recommendations of the ITC and contrary to the will of Congress would be an understatement," he said sardonically.

Motion Systems had asked to brief the USTR on the case, but was allowed only one hearing "when they were cleaning up the documentation," said Wolf.

Subcommittee committee chairman Frank Wolf asked for him to clarify his comments: "Did the Chinese have better access?" Rep. Wolf queried.

"Yes," the Motion Systems president replied.

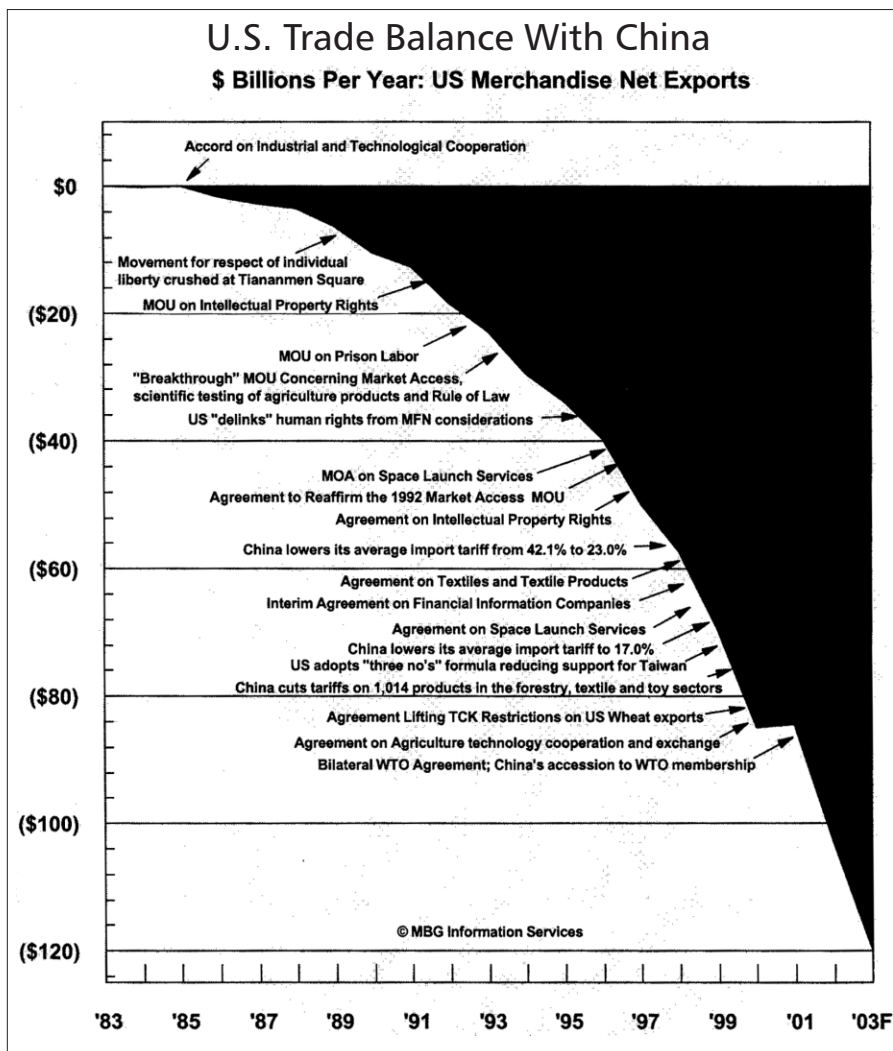
"Why did the Trade Rep's office do that?" Rep. Wolf continued.

"They were trying to keep feathers from being ruffled," the Motion Systems' president answered.

"For what reason?" chairman Wolf asked. "[Chinese president] Jiang [Zemin] was due the next week," he responded with a chuckle.

Chairman Wolf's own feathers became ruffled: "We want to be balanced; we want to be fair, but this has to stop," he stormed. "Do we have to cut the budget over there — if that's the

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China Trade... (From page four)

only way we're going to do it! I feel very passionately about this issue."

A similar trade dispute arose when **M&B Metal Products Co.** was trying to protect itself from an influx of metal dry cleaning hangers from China. The ITC voted five to zero in favor of the industry's claim that it was being materially harmed, and its unanimous injury determination was sent to the U.S. Trade Representative. "Unfortunately, the administration caved in to unremitting pressure from the Chinese government," said M&B Metal Products Co. president Milton Magnus.

At a hearing of the President's Trade Policy Staff Committee, the Chinese representative from the Ministry of Commerce "repeatedly threatened that the imposition of a remedy in the hanger case would damage U.S.-China relations," Magnus relayed. "In his written statement, Mr. Liu Danyang repeated this threat at least six times, claiming that if the President granted relief to an injured U.S. industry it would result in 'unavoidable negative effects on the broader bilateral relationship....I underscore that the decision in this case will not and cannot be viewed in isolation.' This message was heard loud and clear because the President announced that no relief would be provided," Magnus continued. "The administration let China off the hook. It allowed them to continue operating with complete disregard for the normal functioning of open markets and contrary to U.S. law. This administration sent a clear message that the president's speeches about the importance of American business and jobs creation were nothing more than political rhetoric and that Chinese — not American — interests are uppermost to those who are advising the president on the provisions of the law."

Ward Manufacturing vice president Thomas Gleason told the subcommittee that his company was considering pursuing a Section 421 remedy to protect his company and industry for a deluge of Chinese imports of malleable and non-malleable iron pipe fittings. But after the recent rulings in favor of the Chinese, his company decided not to file a complaint. "Our experience with the dumping laws has been completely disappointing," Gleason said.

In two dumping cases in which Ward was involved, the Commerce Department "just plain allowed Chinese founders to lie to them about their factor input quantities," said Gleason. "The largest foundry in China JMC has stated repeatedly in both cases 'that it does not record the actual weight of each input included in each charge, the actual weight of each charge with a total number of charges fed into the cupola each day.' I have been in the foundry business for over 30 years and I know of no foundry in the world that can make this claim with a straight face. It is, simply put, a bold-faced lie. Even the ancient Egyptians who first started foundry production kept track of the inputs."

The U.S. government does not care one lick about the problems facing the foundry industry, Gleason charged.

"For the people of Tioga County, Penn., it appears to us that the President and his administration take the side of the Chinese, not of American workers."

Deputy U.S. Trade Representative Peter Allgeier took issue with the charge that the USTR gave preference to the Chinese government and company agents over U.S. corporate petitioners. Speaking later during the hearing, he said: "I cannot leave unresponded the assertion that the USTR gave preferred access to foreign interest over U.S. interest. I have worked at the office of the U.S. Trade Representative for 23 years and I would say categorically we do not give preferential access to foreign officials over U.S. interests when we make any sort of investigation or when we are conducting our business. I am confident that the record in this case will prove to be true."

Carus Chemical Company senior vice president Inga Carus told the subcommittee about her company's woes in dealing with Chinese imports. Zunyi Chemical Factory smuggled into the United States potassium permanganate in a container falsely marked "tools and toys." "Because potassium permanganate is an incendiary material, this violated numerous regulations on the import materials laws and placed the container ship and its crew in considerable danger," Carus said.

Carus, whose company is the last remaining U.S. producer of potassium permanganate, a chemical used in drinking water and wastewater treatment and contaminated site clean up, said the Commerce Department took 16 months to investigate a 1999 claim Carus made of Chinese producer Groupstars.

"Carus raised a number of serious concerns about Groupstars, but the Department was unable to uncover supporting evidence at verification," Carus told the subcommittee. "Later on, however, the Department dismissed the review when Carus, at great cost to itself, proved that Groupstars had forged a key business license. Other than the dismissal of the review, Groupstars has suffered no consequences for this fraud. Groupstars officials have since admitted in certified statements to the Department that they *made up* all of their key claims in that review and lied about the actual producer." The company also falsified accounting documents and production records "which they presented as bonafide to the Commerce Department at verification," said Carus.

Without the U.S. government's assiduous application of the dumping laws "this could well cause the demise of Carus," said Carus. In a current Commerce Department review, Groupstars continues to make "false and misleading statements to the Department," said Carus. "The company and its lawyers have submitted copies of sensitive Indian company internal documents, which they certified were obtained from the public record of a trade case in India. However, the Indian company protested and stated that these documents were company confidential and believed to be stolen."

This type of behavior should be prosecuted yet the Commerce Department allows sanctioning parties "to repeatedly and routinely submit certified false statements," said Carus. Carus Chemical has spent

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\$500,000 over the past year investigating the fraud charges. "In addition, the Department spent thousands of dollars traveling to China to verify two plants that weren't the actual producers of the product which Groupstars admitted to in a subsequent filing. This was a waste of money. This verification trip to China should never have occurred. It's a lot of money that as a U.S. taxpayer I'm very concerned about."

Anvil International, a maker of ductile iron pipe fittings, steel pipe nipples, hangers and couplings, was successful in having the U.S. government impose a 13 percent tariff on Chinese nipples. Yet imports from China have increased by 50 percent, and Anvil has had to close one of its two U.S. foundries and lay off 350 employees. The company's operations in Canada filed a dumping case last year, and the Canadian government imposed dumping margins of between 100 percent to 200 percent. The firm's operations in Canada are now improving.

"Unfortunately, the Chinese are now shipping all of the pipe nipples they previously exported to Canada to the United States," says Anvil president Thomas Fish. "We have contemplated filing a case in the United States, but why bother when the Commerce Department won't find meaningful dumping margins regardless of the facts. As a businessman, I don't really understand all the dumping methodology calculations. I do know that steel and steel pipe are both more expensive in China than they are in the United States. However, Commerce doesn't use real Chinese cost. I also know my Chinese competitors get loans from Chinese banks that they don't repay. However, our counsel tells us we don't even enforce anti-subsidy laws against Chinese companies. I just don't understand."

Dave Dyer, vice president of **Henrendon Furniture Industries** of Morgantown, N.C., said wood furniture imports from China have jumped from \$423 million in 1996 to \$2.9 billion in 2002, a 15-fold increase. "Had someone suggested to me five years ago that we would be vulnerable to an onslaught of low-cost furniture products originating offshore, I would not have believed it," said Dyer. The wood furniture industry is currently determining whether it should pursue an antidumping case against the Chinese.

Litzler Co., a maker of machine tools for numerous industries, says its manufacturing customers are quickly leaving the United States. The printed circuit board industry "is gone, it's GONE!" company president William Litzler told the subcommittee. Various industry trade shows this year resembled "funerals," he said. U.S. production of paper, fiberglass and ceramics, carbon fiber, composites, electronics materials, television sets, plastic and rubber molding have been replaced by foreign production, "which has in turn jeopardized American capital equipment makers," he said. "Capital equipment makers are a mainstay of our industrial sector. However, a very large number of American equipment suppliers like us are just gone. It's almost as

if the United States has quietly decided not to do any more manufacturing. We seem content to be a nation of finance companies, lawyers, doctors and educators who rely on imported goods to satisfy day-to-day needs."

FMC Corp., was a strong believer in granting permanent normal trade relations with China. Now it's not so sure. After winning a 1997 Commerce Department case over Chinese dumping of persulfate chemicals into the U.S. market with a 42.8 percent duty on Chinese imports, the Bush administration decided to eliminate the duty in 2002. "With China joining the WTO, our government relaxed the application of its own standards as they applied to China," said William Walter, chairman, president and CEO of FMC Corp. "We are not alone in suggesting that the government changed the way they apply the rules."

FMC has been forced to reduce its workforce by 40 percent at its persulfate plant in Tonawanda, N.Y., and the plant could soon be closed due to "sharply expanded" Chinese sales of persulfates in the U.S. market, said Walter.

To view all the testimony presented at the hearing, go to: http://www.house.gov/appropriations/hearings/hear04cj_may22_witness.htm.

Defense Acquisition U....*(From page three)*

and policies. Contracting officers, program managers, financial managers, systems engineers and production quality engineers need to understand what is happening in the market and how to take advantage of natural marketplace forces to shape smart business agreements. DOD personnel working with industry "need to understand risk not just from the perspective of the government, but from the perspective of a contractor making an investment in developing the technology to provide us with state-of-the-art weapon systems," says Anderson.

The adversarial culture that once existed "is slowly disappearing," he adds, "I do not believe the acquisition community is in a defensive crouch and we recognize there are things we really need to address. We're listening to what our customers — the warfighters — are saying and, in general, we should be proud of what we've been able to achieve. Our customers are telling us that we must field high quality products significantly quicker than we have in the past. The lesson of the Iraq war is that this is not a bad news story. This is a good news story, but we are not where we need to be. That is why transformation is important. I believe our senior leaders are really committed to shaping the acquisition, logistics and technology processes to be much more responsive and customer focused. Can we move as fast as we'd like to? Probably not; but we are headed in the right direction. Can our senior leaders transform how we do business by themselves? I don't think they can. It will take everyone's active involvement."

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Be Proactive, Says Rep. Wolf... (Continued from page one)

representatives immediately. "You ought to make it clear to them that they ought to be writing their congressmen and senators and then after they write them, they ought to call them and after they call they ought to go visit them," Wolf told *Manufacturing & Technology News* in an interview after the hearing. "It needs to be more than our subcommittee. It needs to be a broader base."

It's important for those companies claiming to be adversely impacted to put together a compelling case based upon facts that can substantiated. "I want all the data and all the information and I'm going to be in touch with the Director Mueller of the FBI," he said during the hearing. "With these charges, you should be very, very careful about this. It's important not to say anything unless you have very good information."

The information needs to be verifiable because when it comes time for Congress to act, the issue will become politicized. "We don't want hearsay. We don't want anything that isn't factual. We don't want emotions and we don't want to damage people's reputations. When we get up on the [House] Floor with some ideas, we don't want to be rolled by a couple of people saying, 'Wait a minute. This is not free trade, this is protectionism,'" says Wolf. "We're not interested in protectionism. We're interested in honest-to-goodness fair and free trade."

Wolf did not take off his gloves when the final panel of government witnesses testified. Commerce Under Secretary of Trade Grant Aldonas effectively assuaged Wolf by saying: "We want to make sure the door is open for folks when they have issues with China and we've been doing some thinking about new models which I think would be worth coming up and chatting with you about." In his trek across the country to determine what ails manufacturing, Aldonas has found that small- and medium- sized companies do not have the resources to pursue government intervention. "The big guys know where to find us but it's much harder for the SMEs and that

is where we need to do a better job," Aldonas said.

Wolf responded later: "We had some very tough questions that we were prepared to go into but once [Aldonas] made that comment, I sensed they're open to work and I'm going to give them the benefit of the doubt. That's why I didn't go through the whole drill. I don't think it's appropriate for us to browbeat people."

Why hasn't the Bush administration shown any ardor for the issue, Wolf was asked. "Be the devil's advocate: Why would they not?" he responded. "Who's the constituency on the other side? China? The law firms representing the Chinese? I don't know why the administration wouldn't want to catch the vision here."

With all the charges levied by the business executives at the Bush administration during the three-hour packed hearing, ranking minority member José Serrano (D-N.Y.) reminded those in attendance that the Democrats had nothing to do with arranging the witnesses. "Had I selected them, one could say I stacked the meeting and certainly at the risk of stereotyping, which I dislike tremendously, they are not big city leftist liberals who are coming to bash the administration," he said. "But they all had concerns about their government not responding. These folks were legit. These are not all my cousins!"

In his closing remarks Martin Olav Sabo (D-Minn.) said the trade deficit with China and the "who-cares attitude by the folks who run" the trade programs in government indicate that "something is just haywire." Europe is not suffering from a barrage of cheap imports from China, Sabo noted. "The same international trade laws that apply to us apply to Europe and somehow their self interest survives. I don't understand this view that this is okay. Something is obviously screwed up in a major, royal fashion with our conducting trade policy. At some point, I'd like to see the administration take it seriously."

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